

**Financial Statements**

**Tuscola County Community  
Mental Health Authority**

**Caro, Michigan**

**September 30, 2005**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Tuscola County Community Mental Health</b>	County <b>Tuscola</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>11/18/05</b>	Date Accountant Report Submitted to State: <b>3/28/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Form for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

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1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

LOCAL AUDIT & FINANCE DIV.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Roslund, Prestage &amp; Company, P.C.</b>			
Street Address <b>308 Gratiot Avenue</b>	City <b>Alma</b>	State <b>MI</b>	ZIP <b>48801</b>
Accountant Signature 		Date <b>3/28/06</b>	

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## **INDEPENDENT AUDITOR'S REPORT**

Tuscola County Community Mental Health Authority  
Caro, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Tuscola County Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2005 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I - VII and budgetary comparison information on page 28 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 18, 2005

**MANAGEMENT'S DISCUSSION and ANALYSIS**

# **Tuscola County Community Mental Health Authority**

## **Management's Discussion and Analysis**

*For the year ended September 30, 2005*

This section of the Tuscola County Community Mental Health Authority (TCCMHA) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2005. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report, financial statements, notes to financial statements and supplemental information taken as a whole.

### **FINANCIAL HIGHLIGHTS**

- The current financial position, which is the excess of current assets over current liabilities, of TCCMHA was a positive \$384 thousand.
- Revenues at Cass Valley Enterprises increased by \$619 thousand over FY 04.

### **OPERATING HIGHLIGHTS**

TCCMHA continued its commitment to the consumers of Tuscola County.

- The grant approved by the Michigan Department of Community Health (MDCH) was used to develop and produce a series of videos relating to recipient rights. The primary goal of this project was to create a video series that will assist people with mental illness and developmental disabilities by adding another resource to enhance consumer independence. The videos are completed and copies of the video are currently being made for distribution throughout the state.
- The transitional home opened in December 2004 and provides consumers the opportunity to become more independent. The home provides training and support to consumers to learn skills necessary to live on their own.
- TBHS ended the contract in May 2005 with their Outpatient provider and now directly provides this service to consumers.
- Limitations were put in place in FY 05 to control the services provided to general fund consumers based on service eligibility criteria and diagnosis.
- Cass Valley Enterprises (CVE) experienced significant unforeseen challenges in the production of combat identification panels in 2005. Inconsistencies in the technical data package and drawing specifications provided by the prime contractor and the Department of Defense resulted in finished goods and work in process sitting on the plant floor for months while inconsistencies were resolved. Based upon these issues and the likelihood that technical data package issues would continue, CVE management decided that entering into a prime contract

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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with the Department of Defense for the production of combat identification panels exceeded its risk tolerance. By discontinuing production of the combat identification panels, CVE shifted considerable fixed cost burden to its remaining contracts resulting in the planning and implementation of aggressive efforts to reduce cost and bring in additional contracts in the commercial and governmental sectors.

- Cass Valley Enterprises (CVE) has completely redesigned its quality system. The new quality system is far more streamlined, effective and efficient. The resulting system meets and exceeds ISO standards.

### **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are government-wide financial statements and fund financial statements.

**Government-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when earned and expenses recorded when incurred, without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the government-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are measurable and currently available are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.



**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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Fund financial statements are divided into two categories. These are general fund financial statements and proprietary fund financial statements.

General fund financial statements show how the community mental health supports and services programs were financed in the short term, along with what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

### **SUMMARY OF NET ASSETS**

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>
<b><u>Assets</u></b>			
Current assets	\$ 2,060	\$ 2,223	(163)
Restricted assets	358	459	(101)
Capital assets	2,235	2,188	47
<b>Total assets</b>	<b><u>\$ 4,653</u></b>	<b><u>\$ 4,870</u></b>	<b><u>(217)</u></b>
<b><u>Liabilities</u></b>			
Current liabilities	\$ 1,676	\$ 1,854	(178)
Noncurrent liabilities	1,549	1,057	492
<b>Total liabilities</b>	<b><u>3,225</u></b>	<b><u>2,911</u></b>	<b><u>314</u></b>
<b><u>Net Assets</u></b>			
Investment in capital assets, net of related debt	854	1,330	(476)
Restricted for risk management	45	52	(7)
Unrestricted	529	577	(48)
<b>Total net assets</b>	<b><u>1,428</u></b>	<b><u>1,959</u></b>	<b><u>(531)</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 4,653</u></b>	<b><u>\$ 4,870</u></b>	<b><u>(217)</u></b>

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position. The current financial position was a positive \$384 thousand.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

**Restricted assets** consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences and restricted for risk management.

The assets restricted for risk management are related to the risk obligations of the state general fund risk contract maintained directly with the state. At year-end, the balance in this account was \$45 thousand.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise been reported in prior years. As of the beginning of fiscal year 2005, capital assets having an original book value of \$3.6 million were recorded, net of restated accumulated depreciation of \$1.4 million, for a beginning net book value of \$2.2 million.

In fiscal year 2005, \$285 thousand was expended for capital acquisitions. Depreciation expense on previously existing and newly acquired capital assets was \$238 thousand. The net change in capital assets was an increase of \$47 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources.

As of year-end, the net book value of capital assets was 58% of the original book value. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

**Noncurrent liabilities** consist of long-term debt related to the acquisition of capital assets and the liability for compensated absences. Principal payments for the year were \$101 thousand. The liability for compensated absences includes vested vacation and sick pay obligations and certain deferred compensation amounts. The compensated absences liability at year end was \$305 thousand.

**Restricted net assets** include investment in capital assets, net of related debt, and amounts restricted for risk management. These were discussed above.

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

**Unrestricted net assets** at the end of the year were \$529 thousand. Unrestricted net assets were 11% of total assets, down from 12% from the prior year.

**SUMMARY OF ACTIVITIES**

The following summarizes the revenues, expenses and change in net assets on a government-wide basis for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>\$ Change</u>	<u>% Change</u>
<b><u>REVENUE</u></b>				
Medicaid specialty supports and services	\$ 10,806	\$ 10,420	386	4%
State general fund priority populations	1,675	1,824	(149)	-8%
Adult benefits waiver supports and services	156	178	(22)	-12%
Program service revenue	153	212	(59)	-28%
Grants and earned contracts	250	429	(179)	-42%
Cass Valley Enterprises	1,690	1,071	619	58%
County appropriation	288	288	-	0%
Interest income	24	19	5	26%
Other income	78	14	64	457%
<b>TOTAL REVENUE</b>	<b>15,120</b>	<b>14,455</b>	<b>664</b>	<b>5%</b>
<b><u>EXPENSE</u></b>				
Personnel expense	6,425	6,316	109	2%
Operating expense	8,283	7,789	494	6%
Local funds contributed to State	283	283	-	0%
Interest expense	47	27	20	74%
Depreciation	238	227	11	5%
<b>TOTAL EXPENSE</b>	<b>15,276</b>	<b>14,642</b>	<b>634</b>	<b>4%</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ (156)</b>	<b>\$ (187)</b>		
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>\$ (375)</b>	<b>\$ -</b>		
<b>TOTAL CHANGE IN NET ASSETS</b>	<b>\$ (531)</b>	<b>\$ (187)</b>		

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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**Excess of expenses over revenue** from activities for the current year was \$155 thousand or 1% of revenue.

**Medicaid specialty supports and services revenue** represents 71% of total revenue. Beginning in fiscal 2003, the Michigan Department of Community Health began contracting for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. TCCMHA is affiliated with Bay-Arenac Behavioral Health as the designated PIHP for a region consisting of Bay, Arenac, Huron, Montcalm, Shiawassee, and Tuscola counties. TCCMHA subcontracts for Medicaid funding through the PIHP. This subcontract is on a net cost basis. Unspent Medicaid subcontract funds of \$74 thousand from FY 04 are shown as amounts due to the PIHP.

**State general fund priority population revenue** (formula funding) represents 11% of total revenue. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. The GF ISF was utilized in FY 05 for \$8 thousand.

**Adult benefits waiver supports and services revenue** represents 1% of total revenue. The adult benefits waiver program was new in fiscal 2004. This program is funded by state general funds and provides health insurance coverage to uninsured childless adults with countable incomes at or below 35% of the federal poverty level.

**Program service revenue** includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 1% of total revenue.

**Grants and earned contract revenue** includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 2% of total revenue.

**County appropriation revenue**, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 2% of revenue.

**Cass Valley Enterprises revenue** includes revenue earned through various industrial operations contracts. These revenue sources constitute 11% of revenue.

**Total expense** of \$15.3 million has increased \$633 thousand compared to the prior year.

**Personnel expense** is 42% of total expense and has increased primarily due to a 10% increase in benefits.

**Operating expense** is 54% of total expense and has increased from FY 04 by \$493 thousand.

**Tuscola County Community Mental Health Authority**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2005*

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**Interest expense** is less than 1% of total expenses and has increased due to financing the addition of capital resources.

### **FUTURE OUTLOOK**

Once again, the State of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. Budgetary and operating priorities for next year and beyond include the following:

- Expansion of Cass Valley Enterprises operations through new commercial and government contracts.
- Elimination of debt through the expansion of Cass Valley Enterprises and other means.
- Contraction of staffing costs at CVE to correspond to current contract needs.
- Contracting with a Manufacturing Representative at CVE to significantly increase the commercial business operations contracts.
- Continued review of all TBHS programs for operating efficiencies.
- Maximizing collaborative efforts throughout the affiliation to increase efficiency and economies of scale.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**BASIC FINANCIAL STATEMENTS -  
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Tuscola County Community Mental Health Authority  
Statement of Net Assets  
September 30, 2005 and 2004

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current assets		
Cash and investments	\$442,703	\$1,233,792
Accounts receivable	333,228	167,781
Due from other governmental units	445,740	197,587
Inventory	686,473	450,247
Prepaid items	151,853	173,093
Total current assets	<u>2,059,997</u>	<u>2,222,500</u>
Noncurrent assets		
Cash and cash equivalents - restricted	358,047	459,044
Capital assets - depreciable, net	2,095,280	2,070,260
Capital assets - land	140,101	117,600
Total noncurrent assets	<u>2,593,428</u>	<u>2,646,904</u>
Total assets	<u>4,653,425</u>	<u>4,869,404</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	646,855	619,108
Accrued wages and other payroll liabilities	329,833	394,966
Deferred revenue	1,800	800
Due to other governmental units	559,856	735,927
Notes payable, current portion	137,880	103,178
Total current liabilities	<u>1,676,224</u>	<u>1,853,979</u>
Noncurrent liabilities		
Notes payable, net of current portion	1,243,912	754,638
Compensated absences	305,363	302,153
Total noncurrent liabilities	<u>1,549,275</u>	<u>1,056,791</u>
Total liabilities	<u>3,225,499</u>	<u>2,910,770</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	853,589	1,330,044
Restricted for risk management	44,816	51,827
Unrestricted	529,521	576,763
Total net assets	<u>\$1,427,926</u>	<u>\$1,958,634</u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Activities  
For the Year Ended September 30, 2005, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Change in Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$15,275,972</u>	<u>\$11,151,948</u>	<u>\$3,943,967</u>	(\$180,057)	(\$207,417)
General revenues					
Unrestricted investment earnings				23,697	19,356
Restricted investment earnings				<u>857</u>	<u>713</u>
Total general revenues				24,554	20,069
Change in net assets				(155,503)	(187,348)
Net assets - beginning of year				<u>1,958,634</u>	<u>2,145,982</u>
Prior period adjustment				(375,205)	-
Net assets - end of year				<u>\$1,427,926</u>	<u>\$1,958,634</u>

See Accompanying Notes To Financial Statements



**FUND FINANCIAL STATEMENTS**

Tuscola County Community Mental Health Authority  
Balance Sheet  
Governmental Funds  
September 30, 2005 and 2004

	General Fund	
	2005	2004
<b>Assets</b>		
Cash and investments	\$442,703	\$1,233,792
Accounts receivable	333,228	167,781
Due from other funds	7,868	95,506
Due from other governmental units	445,740	197,587
Inventory	686,473	450,247
Prepaid items	151,853	173,093
Restricted cash	305,363	311,711
Total assets	<u>\$2,373,228</u>	<u>\$2,629,717</u>
<b>Liabilities</b>		
Accounts payable	\$646,855	\$619,108
Accrued wages and other payroll liabilities	329,833	394,966
Deferred revenue	1,800	800
Due to other governmental units	559,856	735,927
Total liabilities	<u>1,538,344</u>	<u>1,750,801</u>
<b>Fund balances</b>		
Reserved	457,216	925,493
Unreserved	377,668	(46,577)
Total fund balances	<u>834,884</u>	<u>878,916</u>
Total liabilities and fund balances	<u>\$2,373,228</u>	<u>\$2,629,717</u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended September 30, 2005

Total fund balance - governmental funds	\$834,884
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	3,875,579
Deduct: accumulated depreciation	(1,640,198)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	44,816
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Notes payable	(1,381,792)
Deduct: Compensated absences	(305,363)
Net assets of governmental activities	<u>\$1,427,926</u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ending September 30, 2005 and 2004

	General Fund	
	2005	2004
<b>REVENUES</b>		
State grants		
State general fund - MDCH Contract	\$1,674,858	\$1,823,895
Adult Benefit Waiver	155,664	178,032
Title XX	5,843	5,843
Total state grants	<u>1,836,365</u>	<u>2,007,770</u>
Federal grants	<u>51,054</u>	<u>176,650</u>
Contributions - local units		
County appropriations	<u>288,243</u>	<u>288,243</u>
Charges for services		
Medicaid - affiliate	10,805,613	10,420,308
Medicaid - other	72,392	70,380
Client and third party pay	153,457	211,763
Contract revenue	120,486	176,010
Total charges for services	<u>11,151,948</u>	<u>10,878,461</u>
Interest and rents		
Interest	23,697	19,356
Other revenue		
Cass Valley Enterprises	1,690,298	1,071,312
Other	78,007	13,919
Total other revenue	<u>1,768,305</u>	<u>1,085,231</u>
Total revenues	15,119,612	14,455,711

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ending September 30, 2005 and 2004

	General Fund	
	2005	2004
<b>EXPENDITURES</b>		
Health & welfare - mental health		
Personnel costs	\$6,424,911	\$6,315,941
Operating expenditures	8,563,501	8,071,542
Capital outlay	285,113	1,321,569
Debt service		
Interest	46,758	27,314
Principal	101,213	93,758
Total expenditures	15,421,496	15,830,124
Excess of revenues over expenditures	(301,884)	(1,374,413)
Other financing sources (uses)		
Loan proceeds	625,189	529,369
Operating transfers in (out) - internal service fund	7,868	98,300
Total other financing sources (uses)	633,057	627,669
Excess of revenues and other sources over (under) expenditures and other uses	331,173	(746,744)
Fund balance, October 1	878,916	1,625,660
Prior period adjustment	(375,205)	-
Fund balance, September 30	<u>\$834,884</u>	<u>\$878,916</u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$331,173
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	285,113
Deduct: depreciation expense	(237,592)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of this fund is reported within governmental activities.	
Add: net revenue (expense) from governmental internal service fund	(7,011)
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	101,213
Fixed assets acquired by long term loans are shown as an expenditure and other financing source in the governmental funds. The other financing source must be removed from the statement of activities; principal payments are applied to the long term liability; interest expense is recognized as it accrues.	(625,189)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: Increase in accrual for compensated absences	<u>(3,210)</u>
Change in net assets of governmental activities	<u><u>(\$155,503)</u></u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Net Assets  
Proprietary Funds  
September 30, 2005 and 2004

	Internal Service Funds	
	2005	2004
Assets		
Cash	\$52,684	\$147,333
Total assets	52,684	147,333
Liabilities		
Due to other funds	7,868	95,506
Net assets		
Restricted for risk management	\$44,816	\$51,827

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Non-operating revenues		
Interest income	\$857	\$713
Operating transfers		
Operating transfers in (out) - general fund	<u>(7,868)</u>	<u>(98,300)</u>
Change in net assets	(7,011)	(97,587)
Net assets, beginning of year	<u>51,827</u>	<u>149,414</u>
Net assets, end of year	<u><u>\$44,816</u></u>	<u><u>\$51,827</u></u>

See Accompanying Notes To Financial Statements



Tuscola County Community Mental Health Authority  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from investing activities		
Interest revenue	<u>\$857</u>	<u>\$713</u>
Cash flows from noncapital financing activities		
Internal activity - payments to other funds	<u>(95,506)</u>	<u>146,620</u>
Net increase (decrease) in cash	(94,649)	147,333
Cash and cash equivalents, beginning of year	<u>147,333</u>	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$52,684</u></u>	<u><u>\$147,333</u></u>

See Accompanying Notes To Financial Statements

**NOTES TO THE FINANCIAL STATEMENTS**

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Tuscola County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

**Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Tuscola County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund – This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of risk contract revenues.

**Comparative Data**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

**Receivables and Payables between Funds**

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan and Tuscola County.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**Inventory**

Inventory is recorded at the lower of cost or market on a first-in, first-out basis. The cost is recorded as an expenditure at the time individual inventory items are sold rather than when purchased.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Land	N/A
Buildings and Improvements	20 – 30
Equipment and Furnishings	5 – 10
Computers	3
Vehicles	5



Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**Restricted Assets**

Cash has been restricted for future payment of the compensated absence liability and to fund the net uninsured exposure of potential shortfalls of risk contract revenues. These restricted assets are held in separate cash accounts with local financial institutions.

**Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

**Governmental Fund – Fund Balance Reserves and Designations**

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences are examples of the latter.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess Of Expenditures Over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Authority incurred expenditures in excess of the amounts appropriated as shown on page 28 of this report as unfavorable variances.

**NOTE 3 – DETAIL NOTES**

**Cash and investments**

At September 30<sup>th</sup> the carrying amount of the Authority's cash and investments are as follows:

	<b>2005</b>	<b>2004</b>
Petty cash	\$1,295	\$1,100
Checking and savings accounts	554,539	724,289
Certificates of deposit	244,916	538,154
State Investment Pool	-	429,293
<b>Totals</b>	<b>\$800,750</b>	<b>\$1,692,836</b>

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

At year end, the carrying amount of the Authority's cash deposits was \$799,455 and the bank balance was \$1,306,592. Of the bank balance, \$200,000 was covered by federal depository insurance and the remaining was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A detail of cash, cash equivalents and certificates of deposits follows:

	2005	2004
Cash and cash equivalents – current assets	\$196,492	\$265,245
Cash and cash equivalents – restricted assets	358,047	459,044
Certificates of deposit	244,916	538,154
<b>Total</b>	<b>\$799,455</b>	<b>\$1,262,443</b>

**Due from Other Governmental Units**

Due from other governmental units as of September 30, consists of the following:

	2005	2004
State of Michigan – Medicaid	-	\$12,807
Department of Community Health	\$50,000	85,000
County of Tuscola	72,061	72,061
Department of Community Health OBRA Grant	4,388	12,903
Various Other Governmental Units	8,291	14,421
Bay-Arenac Behavioral Health	311,000	395
<b>Totals</b>	<b>\$445,740</b>	<b>\$197,587</b>

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**Changes in Capital Assets**

A summary of changes in the Authority's capital assets follows:

<b>Assets</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$117,600	\$22,501	\$-	\$140,101
Buildings and Improvements	1,627,992	170,182	-	1,798,174
Equipment and Furnishings	444,431	18,346	-	462,777
Computers	239,421	-	-	239,421
Vehicles	1,161,022	74,084	-	1,235,106
Sub-total	3,590,466	285,113	-	3,875,579
<b>Accumulated Depreciation</b>				
Buildings and Improvements	93,662	82,076	-	175,738
Equipment and Furnishings	225,037	35,715	-	260,752
Computers	236,492	2,929	-	239,421
Vehicles	847,415	116,872	-	964,287
Sub-total	1,402,606	237,592	-	1,640,198
<b>Totals</b>	<b>\$2,187,860</b>	<b>\$47,521</b>	<b>\$-</b>	<b>\$2,235,381</b>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

**Due to Other Governmental Units**

Due to other governmental units as of September 30, consist of the following:

	<b>2005</b>	<b>2004</b>
State of Michigan	\$110,250	\$115,308
Bay-Arenac Behavioral Health	449,606	620,619
<b>Totals</b>	<b>\$559,856</b>	<b>\$735,927</b>

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

**Long-Term Debt – Compensated Absences**

Authority policy allows full time employees to accumulate vacation and sick days at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum of 30 vacation days are to be paid to the employee and recognized as an expense either when annual leave time is used, or at the discretion of the Authority, upon termination of employment.

Employees also accumulate sick leave time at various rates, depending on the date of hire with the Authority. Amounts accumulated up to a maximum of 60 days are to be paid to the employee and recognized as an expense either when sick leave time is used, or at the discretion of the Authority, upon termination of employment.

As of September 30, 2005 and 2004, compensated absences liability was \$305,363 and \$302,153, respectively.

**Long Term Debt – Notes Payable**

*Vehicle Loans*

During the 2002 year, the Authority entered into four promissory note contracts with Community Bank in Caro, Michigan for the purchase of 10 vehicles. Payments are due monthly in the amount of \$3,312, including interest at the rate of 4.9% per annum. As of September 30, 2005, the balance of these loans total \$56,523.

During the 2003 year, the Authority entered into three promissory note contracts with Community Bank in Caro, Michigan for the purchase of five vehicles. Payments are due monthly in the amount of \$1,881, including interest at the rate of 4.9% per annum. As of September 30, 2005, the balance of these loans total \$39,215.

During the 2004 year, the Authority entered into one promissory note contract with Community Bank in Caro, Michigan for the purchase of four vehicles. Payments are due monthly in the amount of \$1,212, including interest at the rate of 4.9% per annum. As of September 30, 2005, the balance of these loans total \$41,636.

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

During the 2005 year, the Authority entered into two promissory note contracts with Community Bank in Caro, Michigan for the purchase of two vehicles. Payments are due monthly in the amount of \$1,269, including interest at the rate of 4.9% per annum. As of September 30, 2005, the balance of these loans total \$58,038.

**Building Loan**

During the 2003 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. During the 2005 year, the Authority refinanced this loan. Payments are due monthly in the amount of \$4,380, including interest at the rate of 4.05% per annum. As of September 30, 2005, the balance of the loan totals \$585,291.

During the 2004 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. Payments are due monthly in the amount of \$3,417, including interest at the rate of 3.9% per annum. As of September 30, 2005, the balance of the loan totals \$431,792.

During the 2005 year, the Authority entered into a promissory note contract with Mayville State Bank in Mayville, Michigan for the purchase of real property. Payments are due monthly in the amount of \$836, including interest at the rate of 4.15% per annum. As of September 30, 2005, the balance of the loan totals \$169,297.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2005 are as follows, including total interest payments of \$456,112.

<b>Year Ended September 30,</b>	<b>Amount</b>
2006	\$192,155
2007	163,305
2008	144,329
2009	122,044
2010	106,088
2011 – 2015	517,995
2016 – 2020	450,830
2021 – 2025	50,180
2026 – 2030	50,180
2031 – 2035	\$40,798

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

The changes in long term liabilities during the 2005 fiscal year are as follows:

<b>Liability</b>	<b>Balance October 1, 2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance September 30, 2005</b>
Compensated Absences	\$302,153	\$3,210	\$-	\$305,363
Vehicle Loans	205,673	52,712	62,973	195,412
Building Loans	652,143	572,477	38,240	1,186,380
<b>Totals</b>	<b>\$1,159,969</b>	<b>\$628,399</b>	<b>\$101,213</b>	<b>\$1,687,155</b>

### Operating Leases

Tuscola County Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the government-wide financial statements or the fund financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2005:

<b>YEAR ENDING SEPTEMBER 30,</b>	<b>AMOUNT</b>
2006	\$320,891
2007	136,792
2008	42,653
2009	-0-
2010	-0-
Thereafter	-0-

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**Retirement Systems**

**MERS**

*Plan Description*

The Authority participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2004. The Authority's payroll for the employees covered by the system for the year ended December 31, 2004 was \$4,111,978.

*Funding Policy*

Under the provisions of this plan, employees contribute 5% of annual compensation. The amount of employer contributions is determined on a yearly basis. For the year ending September 30, 2005, employer contributions to this retirement plan was \$63,754.

For the 2005 fiscal year, employer contributions will be at the rate of 1.55% of eligible employee wages.



Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

At December 31, 2004, the assets were more than the pension benefit obligation by \$730,434, determined as follows:

<i>GASB 25 Information</i>	
<i>Actuarial Accrued Liability</i>	
Retirees and beneficiaries currently receiving benefits	\$1,205,811
Terminated employees not yet receiving benefits	921,261
Non-vested terminated employees (pending refunds of accumulated member contributions)	99,734
Current Employees:	
Accumulated employee contributions including allocated investment income	1,433,860
Employer financed	3,334,943
Total actuarial accrued liability	6,995,609
Net assets available for benefits at actuarial value (market = \$7,541,539)	7,726,043
Unfunded (over funded) actuarial accrued liability	\$(730,434)
<b>GASB 27 Information</b>	
Fiscal Year Beginning	October 1, 2006
Annual Required Contribution (ARC)	\$102,000
Amortization factor used – under-funded liabilities (30 years)	.053632
Amortization factor used – under-funded liabilities (10 years)	.119963

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Over funded) AAL	Unfunded AAL as a Percentage of Annual payroll
12-31-02	\$6,612,265	\$5,911,019	\$(701,246)	0%
12-31-03	7,152,195	6,465,580	(686,615)	0%
12-31-04	7,726,043	6,995,609	(730,434)	0%

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

**Principal Financial Group**

*Plan Description*

Effective October 1, 1997, the Authority was considered a new governmental entity, and voted to join an optional retirement plan instead of the Social Security system for full time employees 18 years or older.

*Funding Policy*

Principal Life Insurance Company is the firm used to invest plan funds. Full Time employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions are 6.2% of employee wages. These are the same contribution rates as the Social Security rates. Under this plan, employees are always 100% vested in their account.

Employees of the Authority not eligible to participate in this plan are covered by the Social Security system.

**Risk Management**

*Michigan Municipal Risk Management Authority*

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$-0- and \$250. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

Tuscola County Community Mental Health Authority  
Notes To Financial Statements  
September 30, 2005

For the period July 1, 2004 through July 1, 2005, the Authority's coverage limits are \$5,000,000 for liability and from \$10,000 up to \$200,000,000 for property and crime. The expense recognized by the Authority for this type of risk management coverage for this time period totaled \$133,383.

**Managed Care Risk Contract** – The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

**Prior Period Adjustment**

The following transactions were recognized in these financial statements as prior period adjustments:

Description	2005	2004
Adjustment to prior year cost settlement document filed with Bay-Arenac Behavioral Health	(\$375,205)	-
<b>Totals</b>	<b>(\$375,205)</b>	<b>-</b>

**Contingent Liabilities**

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

**REQUIRED SUPPLEMENTAL INFORMATION**

Tuscola County Community Mental Health Authority  
Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
General Fund  
For the Year Ended September 30, 2005

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
State grants				
State General Fund - MDCH Contract	\$1,666,925	\$1,689,585	\$1,674,858	(\$14,727)
Adult Benefit Waiver	180,000	155,200	155,664	464
Title XX	5,843	5,843	5,843	-
Total state grants	<u>1,852,768</u>	<u>1,850,628</u>	<u>1,836,365</u>	<u>(14,263)</u>
Federal grants	<u>50,000</u>	<u>52,100</u>	<u>51,054</u>	<u>(1,046)</u>
Contributions - local units				
County appropriations	<u>288,243</u>	<u>288,243</u>	<u>288,243</u>	<u>-</u>
Charges for services				
Medicaid - affiliate	10,512,195	10,785,000	10,805,613	20,613
Medicaid - other	26,000	35,300	72,392	37,092
Client and third party pay	175,245	174,300	153,457	(20,843)
Contract revenue	112,700	128,200	120,486	(7,714)
Total charges for services	<u>10,826,140</u>	<u>11,122,800</u>	<u>11,151,948</u>	<u>29,148</u>
Interest and rents				
Interest	<u>19,000</u>	<u>20,500</u>	<u>23,697</u>	<u>3,197</u>
Other revenue				
Cass Valley Enterprises	2,151,000	2,301,500	1,690,298	(611,202)
Other	71,457	30,900	78,007	47,107
Total other revenue	<u>2,222,457</u>	<u>2,332,400</u>	<u>1,768,305</u>	<u>(564,095)</u>
Total revenues	<u>15,258,608</u>	<u>15,666,671</u>	<u>15,119,612</u>	<u>(547,059)</u>
<b>EXPENDITURES</b>				
Health & welfare - mental health				
Personnel costs	7,332,580	6,700,934	6,424,911	276,023
Operating expenditures	7,926,028	8,790,169	8,563,501	226,668
Capital outlay	-	-	285,113	(285,113)
Debt service	-	-	147,971	(147,971)
Total expenditures	<u>15,258,608</u>	<u>15,491,103</u>	<u>15,421,496</u>	<u>69,607</u>
Excess of revenues over expenditures	-	175,568	(301,884)	(477,452)
Other financing sources (uses)				
Loan proceeds	-	-	625,189	625,189
Operating transfers in (out) - internal service fund	-	-	7,868	7,868
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>633,057</u>	<u>633,057</u>
Excess of revenues and other sources over (under) expenditures and other uses	-	175,568	331,173	155,605
Fund balance, October 1	<u>878,916</u>	<u>878,916</u>	<u>878,916</u>	<u>-</u>
Prior period adjustment	-	-	(375,205)	(375,205)
Fund balance, September 30	<u>\$878,916</u>	<u>\$1,054,484</u>	<u>\$834,884</u>	<u>(\$219,600)</u>

See Accompanying Notes To Financial Statements

**OTHER SUPPLEMENTAL INFORMATION**

Tuscola County Community Mental Health Authority  
Supporting Schedule of Personnel Costs  
For the Year Ending September 30, 2005 and 2004

	<u>General Fund</u>	
	<u>2005</u>	<u>2004</u>
<b>Personnel Costs</b>		
Salaries and wages	\$5,031,943	\$5,048,555
Fringe benefits	<u>1,392,968</u>	<u>1,267,386</u>
Total personnel costs	<u><u>\$6,424,911</u></u>	<u><u>\$6,315,941</u></u>

See Accompanying Notes To Financial Statements

Tuscola County Community Mental Health Authority  
Supporting Schedule of Operating Expenditures  
For the Year Ending September 30, 2005 and 2004

	General Fund	
	2005	2004
<b>Operating Expenditures</b>		
Client Activities	\$88,389	\$50,489
Communications	72,595	95,784
Contractual Services	4,582,477	4,066,961
Institutional And State Residential Care	396,615	411,509
Insurance	133,383	315,092
Local Funds Contribution	282,805	282,805
Other	123,257	137,075
Private Hospitalization	286,863	473,937
Printing And Publishing	46,070	48,733
Raw Materials	1,308,193	847,742
Rental Expense	434,205	483,225
Repairs And Maintenance	119,866	165,533
Supplies	473,241	492,193
Travel	97,682	101,104
Utilities	117,860	99,360
 Total Operating Expenditures	 <u>\$8,563,501</u>	 <u>\$8,071,542</u>

See Accompanying Notes To Financial Statements





**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Tuscola County Community Mental Health Authority  
Caro, Michigan

We have audited the financial statements of the governmental activities and each major fund of Tuscola County Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated November 18, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Co, P.C.*  
Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 18, 2005



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MANAGEMENT LETTER

LOCAL AUDIT & FINANCE DIV.

Board of Directors  
Tuscola County Community Mental Health Authority  
Caro, Michigan

In planning and performing our audit of the financial statements for Tuscola County Community Mental Health Authority, for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 18, 2005 on the financial statements of Tuscola County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them with you in further detail, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

November 18, 2005

**GASB Statement No. 45**

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.